

Message Text

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ACTION ARA-20

INFO OCT-01 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-03 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 L-03 H-03

CIAE-00 COME-00 FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12

LAB-06 SIL-01 PA-04 PRS-01 USIA-15 AGR-20 SWF-02

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E.O. 11652: NA

TAGS: EFIN EMRG CO

SUBJECT: GOC TAKES ADDITIONAL EMERGENCY MEASURES

REF BOGOTA 8375

1. LOPEZ ADMIN YESTERDAY PUBLISHED NEW
DECREE DATED SEPT 18 UNDER ITS STATE OF ECONOMIC
EMERGENCY POWERS REGULATING CERTAIN EXPENDITURES OF
DECENTRALIZED AGENCIES; TODAY, IT RELEASED FIVE MONETARY
BOARD RESOLUTIONS ALSO DATES SEPT 18 ON A VARIETY
OF BANKING AND MONETARY MATTERS. ONE OF THE MEASURES COULD
ABSORB \$4 BILLION PESOS IF FULLY IMPLEMENTED.

2. NEW DECREE PROHIBITS DECENTRALIZED AGENCIES
FROM MAKING ANY EXPENDITURES FOR PUBLIC RELATIONS
ACTIVITIES. IT ALSO DIRECTS AGENCIES TO ELIMINATE
PUBLIC RELATIONS OFFICES AND TO TERMINATE ANY CONTRACTS
COVERING SUCH ACTIVITIES. DECREE FURTHER PROHIBITS
EXPENDITURES FOR MEMBERSHIPS IN CLUBS OR SOCIAL ORGANIZATIONS
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AND DENIES USE OF CREDIT CARDS TO DIRECTORS OF DECENTRALIZED

AGENCIES WHEN CHARGES ARE TO BE BILLED TO AGENCIES.
EXPENDITURES FOR PUBLICATIONS, FURNITURE AND VEHICLES
ARE ALSO CONTROLLED BY DECREE.

3. PRELIMINARY ANALYSIS OF THE FIVE MONETARY RESOLUTIONS
SUGGESTS THESE MEASURES ARE IN TUNE WITH EARLIER DECREES
(SEE BOGOTA 7537) WHICH ATTEMPT TO RATIONALIZE THE
STRUCTURE OF THE FINANCIAL AND BANKING SYSTEM. THE NEW
MEASURES ARE AS FOLLOWS:

A(A) RESOLUTION NUMBER 59 -FACILITATES THE GRADUAL
SHIFT OF WORKING BALANCES OF GOVERNMENT AGENCIES FROM THE
COMMERICAL BANKS TO THE CENTRAL BANK. THE TIME REQUIRED
TO IMPLEMENT THIS DECISION WILL DEPENDON THE SIZE OF
THE COMMERCIAL BANK. SMALLER BANKS WILL BE GIVEN TWO
YEARS WHILE THE BIGGER BANKS MUST COMPLETE THE
TRANSFER OF WORKING BALANCES WITHIN A YEAR. THE GOC HAD
PROPOSED THE TRANSFER AS A MOVE TO CONTRACT THE MONEY
SUPPLY. SOME SMALL COMMERICAL BANKS HAVE BEEN USING
THESE WORKING BALANCES TO COVER LEGAL RESERVE REQUIREMENTS.
(XTL RESOLUTION NUMBER 60-REQUIRES PERSONS
TRAVELING ABORAD TO DEPOSIT FOR 6 MONTHS THE EQUIVALENT
OF 10 PESOS FOR EACH DOLLAR IN FOREIGN EXCHANGE
REQUESTED FROM THE CENTRAL BANK. THE INTENT IS TO REDUCE
THE AMOUNT OF FOREIGN EXCHANGE PROVIDED FROM RESERVES TO
MEET FOREIGN TRAVEL EXPENSES. IT WOULD BE, IN EFFECT,
A TAX ON UPPER-INCOME GROUPS WHICH DO MOST OF THE TRAVELING
ABROAD. THIS MEASURES MAY STIMULATE THE DEMAND FOR
DOLLARS IN THE BLACK MARKET.

(C) RESOLUTION NUMBER 61-PREVENTS THE FUTURE USE
OF SPECIAL CENTRAL BANK REDISCOUNT LINES TO COMMERCIAL BANKS.
THESE LINES WERE USED TO SUPPLY DOMESTIC CREDIT TO PUBLIC
AND CERTAIN DECENTRALIZED AGENCIES TO FINANCE IMPORTS FROM
FOREIGN EXCHANGE RESERVES. THESE CREDIT LINES TOTALLED AT
LEAST \$70 MILLION BUT IT IS NOT CLEAR HOW MUCH CREDIT HAS
BEEN USED THUS FAR. THIS MEASURE PROBABLY WILL ACT AS A
DISINCENTIVE TO OFFICIAL AGENCY BORROWING BECAUSE THEY WILL
NO LONGER ENJOY A PROVILEGED PSOTITION ON LOAN TERMS.

(D) RESOLUTION NUMBER 62-REQUIRES COLOMBIAN COMMERCIAL
BANKS TO GRADUALLY IMPLEMENT LEGAL RESERVE REQUIREMENTS,
EVENTUALLY EQUIAL TO 100 PERCENT, FOR ALL FOREIGN EXCHANGE
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DEPSOIT HELD IN FORIEGN BANKS WHICH EXCEED \$1 MILLION.
FEEDBACK FROM THE BANKING COMMUNITY SUGGEST THIS MEASURE WAS
TAKEN TO SUBSTANTIALLY CONTRACT MONEY SUPPLY BY FORCING LARGE
COLOMBIAN BANKS TO ESTABLISH RESERVES ON DEPOSITS ABORAD.
PREVIOUSLY THERE WAS NO RESERVE REQUIREMENT ON SUCH ASSETS HELD
ABROAD. AS A RESULT LARGE COMMERCIAL BANKS PLACED ASSETS
ABROAD IN THIS WAY. TWO LARGEST COMMERCIAL BANKS REPORTEDLY
HAVE 4 BILLION PESOS PLACED ABORAD. BY END OF OCTOBER NEW

RESERVE REQUIREMENT COULD CONTRACT MONEY SUPPLY AS MUCH AS 1.2 BILLION PESOS AND BY 4 BILLION PESOS WHEN FULLY IMPLEMENTED.

(3) RESOLUTION NUMBER 63-AUTHORIZES

THE OPENING AND MANAGEMENT OF A REVOLVING FUND IN FOREIGN EXCHANGE OR THE GRANTING OF GLOBAL GUARANTEES TO PAY FREIGHT CHARGES ON FOREIGN TRADE. THE PURPOSE OF THE MEASURE IS TO FACILITATE A SMOOTHER FLOW OF EXPORT AND IMPORT PAYMENTS.

4. NEW MEASURES WHILE NOT OF GREAT INTRINSIC SIGNIFICANCE

(WITH EXCEPTION OF RESOLUTION 61) REFLECT A CONTINUING PATTERN OF ORTHODOXY BY LOPEZ ADMIN IN DEALING WITH ECONOMIC AND FINANCIAL MATTERS. THEY ALSO TEND TO MAINTAIN ATMOSPHERE OF TENSION AND EXPECTATION CREATED BY DECLARATION OF ECONOMIC EMERGENCY AND PREVIOUSLY REPORTED ACTIONS ON WHEAT SUBSIDY TAX STATUS OF STATE-OWNED COMPANIES, AND NATURAL GAS PRODUCTION. CABINET CONTINUES TO MEET IN MARATHON SESSIONS AND DECREES ARE EXPECTED SOON ON GENERAL TAX REFORM, GASOLINE PRICES, BUS FARES AND EXPORT TAX CREDITS.
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